GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:805
ANSWERED ON:25.02.2011
ILLICIT OUTFLOWS FROM THE COUNTRY
Rathod Shri Ramesh

Will the Minister of FINANCE be pleased to state:

(a) whether trade liberalization provided more opportunities to related and unrelated companies to under or over invoice trade leading to illicit outflow of money; and

(b) if so, the steps being taken or proposed to be taken to strengthen institutions and governance to curtail capital flight?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

a) Substantial growth in cross border trade and investment as a result of economic liberalization does have an effect over illicit transfer of income and capital from developing countries, including India, by way of over/under invoicing.

b) The strategy to curtail illicit outflow of money through trade mispricing consists of the following measures:

Policy measures:

1. A robust Transfer Pricing Legislation has been put in place in the Income Tax Act 1961.

2. General Anti-Avoidance Rules (GAAR) and Controlled Foreign Company Rules (CFC) have been introduced in the Direct Tax Code Bill

3. Exchange of Information through Double Taxation Avoidance Agreement (DTAA) and Tax Information Exchange Agreement (TIEA) have been strengthened

Administrative measures

1. Foreign Tax Division of Ministry of Finance has been strengthened

2. 10 Income Tax Overseas Units have been created

3. Special attention is given to capacity building of officers posted in Directorate of International Taxation and Transfer Pricing through intensive training.

4. Special posting policy has been formulated for officers of Directorate of International Taxation and Transfer Pricing in order to ensure that the best talent in this field is available.

5. India is actively taking part in all international forums like G20, Global Forum, OECD, UN etc.